

**St Edmundsbury Borough
Council**
Audit results report

Year ended 31 March 2017



7 September 2017

Dear Performance and Audit Scrutiny Committee Members

We have substantially completed our audit of St Edmundsbury Borough Council (the Council) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3, before the statutory deadline of 30 September 2017.

We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Performance and Audit Scrutiny Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Mark Hodgson
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated September 2015)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Performance and Audit Scrutiny Committee, other members of the Authority and management of St Edmundsbury Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Performance and Audit Scrutiny Committee, other members of the Authority and management of St Edmundsbury Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Performance and Audit Scrutiny Committee, other members of the Authority and management of St Edmundsbury Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to your Performance and Audit Scrutiny Committee meeting on the 25 May 2017, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £1.337 million. We reassessed this using the actual results for the financial year, which has decreased this amount to £1.330 million. The threshold for reporting audit differences has decreased from £0.067 million to £0.065 million.

The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure on services.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- ▶ Remuneration disclosures - reduced materiality level of £5,000 applied in line with bandings disclosed.
- ▶ Related party transactions, members' allowances and exit packages - reduced materiality level applied equal to the reporting threshold.

Status of the audit

We have substantially completed our audit of St Edmundsbury Borough Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items (outstanding as of 7 September 2017) we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3 - Audit Report. The areas of work to complete are:

- ▶ Final Director and Manager review of the completed audit work;
- ▶ Review of the final version of the financial statements;
- ▶ Completion of subsequent events review; and
- ▶ Receipt of the signed accounts and management representation letter.

We expect to issue the audit certificate at the same time as the audit opinion.



Executive Summary

Executive summary (continued)

Audit differences

There are no unadjusted audit differences arising from our audit.

We have identified one adjustment which has been corrected by management in the revised financial statements subject to approval. This is set out in Section 4.

We also identified a limited number of minor disclosure adjustments which have also been corrected by management. None of these are deemed so significant to require reporting to you.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Performance and Audit Scrutiny Committee.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we did not identify any significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Executive summary (continued)

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We are not reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the Authority falls below the £350 million threshold for review as per the NAO's group instructions.

We have no other matters to report.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. During the completion of our audit we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to bring to your attention.





02

Areas of Audit Focus





Areas of Audit Focus

Audit issues and approach: Significant risks (including fraud risks)

Significant Risk: Risk of fraud in revenue recognition

What are our conclusions?

We have not identified any material weaknesses in the recognition of revenue.

We have not identified any instances of inappropriate judgements or estimates being applied.

What is the risk?

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.

 Significant Risk

What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Reviewed and discussed with management accounting estimates on revenue and expenditure recognition for evidence of bias;
- ▶ Performed substantive testing over material revenue and expenditure streams;
- ▶ Reviewed and test revenue cut-off at the period enddate;
- ▶ Tested the appropriateness of journals entries moving expenditure items from revenue codes to Capital codes; and
- ▶ Tested a sample of the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital in nature.



Areas of Audit Focus

Audit issues and approach: Significant risks (including fraud risks)

Significant Risk: Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.


We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

What is the risk?

Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

 Significant Risk

What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Tested the appropriateness of journal entries recorded in the general ledger (using our data analytics tool) and other adjustments made in preparing the financial statements;
- ▶ Reviewed significant accounting estimates (e.g. valuations of property, plant and equipment and pensions) for evidence of management bias including a review of the methodology used to calculate the estimates at the year-end; and
- ▶ Evaluated the business rationale for significant unusual transactions.



Areas of Audit Focus



Management Override - Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. Due to their significance on the financial statements we have included these estimates as higher inherent risk in our audit strategy and include a separate section to report on this below. The key estimates are considered to be:

- ▶ The valuation of Property, Plant and Equipment.
- ▶ Valuation of pension liabilities.

Specifically in relation to other liabilities we consider that accruals are low risk as the majority are based on known values/invoices. As such we have focused our work on provisions.

The provisions balance in the financial statements is £1.508 million at 31 March 2017 (£1.776 million at 31 March 2016). This consists of the following material estimate representing the majority of the provisions balance:

- ▶ **Provision for NNDR appeals** which is required to be estimated and included in the financial statements in accordance with the Code. The total provision for NNDR appeals as accounted in the Collection Fund is £2.773 million at 31 March 2017, the Council's share is £1.110 million. We have reviewed the calculation and reasonableness of the provision. The Council use information provided by the Valuation Office and apply historic trends on success rates and rateable value movements. We have considered this calculation and have no matters to report.

The remainder of the Council's estimates, including the remaining provisions, bad debt provision and depreciation are considered to be low risk. No issues were noted in our work in these areas.



Areas of Audit Focus

Audit issues and approach: Other financial statement risks

Other Risk: Financial statements presentation

What are our conclusions?

We identified misstatements in regards to the treatment of overhead recharges which have been corrected by management.

The improper treatment of recharges lead to overstatement of the total income and expenditure of net cost of services within the CIES and accompanying notes for the 2016/17 figures and 2015/16 comparatives. Further details of this misstatement can be found in Section 4.

It should be noted that the Expenditure and Funding Analysis (EFA), although positioned amongst them, is not a Primary Statement (consistent with the Code Guidance notes).

As such, an additional narrative paragraph has been added to the EFA, to reflect this.

What is the risk?

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement, and include the introduction of a new Expenditure and Funding Analysis note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Reviewed the expenditure and funding analysis, CIES and new disclosure notes to ensure disclosures are in line with the Code;
- ▶ Reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ Agreed restated comparatives figures to the Council's segmental analysis and supporting working papers.



Areas of Audit Focus

Audit issues and approach: Other financial statement risks (continued)

Other Risk: Property, Plant and Equipment valuation

What are our conclusions?

We have assessed and are satisfied with the competency and objectivity of the Council's valuer, the District Valuer.

We have undertaken appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the Council's fixed assets.

We have not identified any issues that we need to report to you.

What is the risk?

Property, Plant and Equipment represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.

The Council will engage an external expert valuer who will apply a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Undertook procedures to rely on the valuer as management's valuation experts. This included consideration of the work performed by the Council's valuer, including the adequacy of the scope of the work performed, professional capabilities and the results of their work; and
- ▶ We reviewed the asset valuations, their valuation basis, and the assumptions behind them;
- ▶ Tested the accounting treatment of valuations made in the year, including the assessment and treatment of impairments.



Areas of Audit Focus

Audit issues and approach: Other financial statement risks (continued)

Other Risk: Pensions Liability - IAS19

What are our conclusions?

Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable.

The sensitivities surrounding these assumptions have been correctly disclosed in Note 3 to the financial statements.

No issues have been identified in completing our work.

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.

Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

In order to address this risk we carried out a range of procedures including:

- ▶ Liaised with the auditors of the administering body (Suffolk County Council and its Pension Fund), obtaining assurances over the information supplied to the actuary in relation to St Edmundsbury Borough Council;
- ▶ Assessed the competency and objectivity of the Pension Fund actuary;
- ▶ Assessed the conclusions drawn on the work of the Pension Fund actuary by the Consulting Actuary commissioned by Public Sector Auditor Appointments, PwC; and
- ▶ Reviewed and tested the accounting entries and disclosures made in relation to IAS19.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ST EDMUNDSBURY BOROUGH COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of St Edmundsbury Borough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, the related notes 1 to 38 and the Expenditure and Funding Analysis to the Council Accounts, and the Collection Fund and the related notes C1 to C3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of St Edmundsbury Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 10, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the *2016/2017 Statement of Accounts* to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of St Edmundsbury Borough Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the *2016/2017 Statement of Accounts* for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on St Edmundsbury Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, St Edmundsbury Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of St Edmundsbury Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



04

Audit Differences



Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have included all known amounts greater than £0.065 million relating to St Edmundsbury Borough Council in our summary of misstatements.

We highlight the following misstatement in the financial statements identified during the audit. This has been corrected by management:

- In the Comprehensive income and expenditure statement and related notes, total gross expenditure and total gross income for cost of services were overstated by £8.628 million for the 2016/17 and £8.004 million in the 2015/16 comparative figures due to the incorrect application of the new reporting requirements for the expenditure funding analysis. The Authority incorrectly grossed up its recharges as per its internal monitoring procedures, rather than showing the true expenditure as required for accounting purposes. The net impact on Cost of services is nil, there being no impact on surplus/deficit on provision of services or total comprehensive income and expenditure within the comprehensive income and expenditure statement.

There are no uncorrected misstatements.

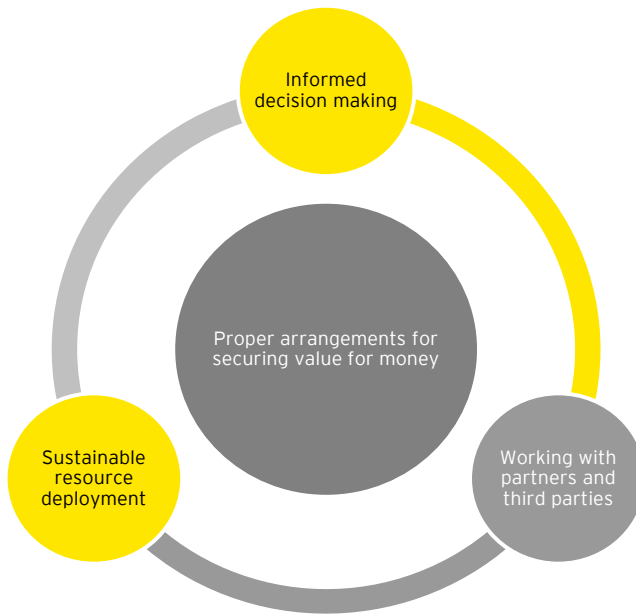


05 Value for Money



Value for Money

Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We did not identify any significant risks around these criteria.

Having completed our work, we do not have any matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



06 Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have reviewed the Annual Governance Statement and Narrative Report and can confirm they are consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

The Authority falls below the £350 million threshold for a full review, so we have undertaken the limited procedures that are required. We have concluded our work in this area and have no matters to report to the Performance and Audit Scrutiny Committee.



Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern; and
- ▶ Consideration of laws and regulations.

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have only requested standard representations. Appendix D sets out our request for these representations.

We have no other exceptions to report.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08

Appendices



Appendix A

Required communications with the Performance and Audit Scrutiny Committee

There are certain communications that we must provide to the Performance and Audit Scrutiny Committees of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Performance and Audit Scrutiny Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	May 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit that were discussed with management ▶ Written representations we have requested ▶ Expected modifications to the audit report ▶ Any other matters significant to overseeing the financial reporting process 	September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about St Edmundsbury Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	September 2017 Audit Results Report



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the Performance and Audit Scrutiny Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Performance and Audit Scrutiny Committee responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Performance and Audit Scrutiny Committee whether any subsequent events have occurred that might affect the financial statements. 	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	September 2017 Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	We are awaiting some external confirmations in relation to cash and investments. We will provide you with an update at the Performance and Audit Scrutiny Committee on 20 September 2017.



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and/or regulations	<ul style="list-style-type: none"> Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off” Asking the Performance and Audit Scrutiny Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Performance and Audit Scrutiny Committee. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY’s objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> The principal threats Safeguards adopted and their effectiveness An overall assessment of threats and safeguards Information on the firm’s general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	May 2017 - Audit Plan September 2017 - Audit Results Report
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	May 2017 - Audit Plan September 2017 - Audit Results Report
Certification work	Summary of certification work	Certification Report



Appendix B

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Performance and Audit Scrutiny Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Performance and Audit Scrutiny Committee on 20 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

Description	Expected Final fee 2016/17 £'s	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee - Code work	43,767	43,767	43,767	43,767





Appendix C

Accounting and regulatory update



Accounting update

Since the date of our last report to the Performance and Audit Scrutiny Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on St Edmundsbury Borough Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; ▶ Financial hedge accounting; and ▶ The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets; ▶ Remeasure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> ▶ Disaggregate revenue into appropriate categories; ▶ Identify relevant performance obligations and allocate income to each; and ▶ Summarise significant judgements.



Appendix C



Name	Summary of key measures 	Impact on St Edmundsbury Borough Council 
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>



Appendix C

Progress report on implementation of new standards and regulations

In previous reports to the Performance and Audit Scrutiny Committee, we highlighted the issue of new accounting standards and regulatory developments. The following table summarises progress on implementation:

Name	Summary of key measures 	Impact on St Edmundsbury Borough Council 
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has reviewed and amended the closedown process to achieve draft accounts production by 31 May for 2016/17.</p> <p>We will work with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> ▶ Streamlining the Statement of Accounts removing all non-material disclosure notes; ▶ Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; ▶ Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; ▶ Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; ▶ Establishing and agreeing working materiality amounts with the auditors.



Appendix D - Request for a Management representation letter



Ernst & Young LLP
One Cambridge Business Park
Cambridge
CB4 0WZ
Tel: + 44 1223 394400
Fax: + 44 1223 394401
ey.com



Rachael Mann
Head of Resources and Performance
West Suffolk House
Western Way
Bury St Edmunds
Suffolk
IP33 3YU

7 September 2017

Ref:
Your ref:

Direct line: 01223 394547

Email: MHodgson@uk.ey.com

Dear Rachael,

St Edmundsbury Borough Council – 2016/17 financial year Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Performance and Audit Scrutiny Committee, as those charged with governance of the Council.



Appendix D - Request for a Management representation letter

I would expect the letter of representation to include the following matters.

General statement

That the letter of representations is provided in connection with our audit of the financial statements of St Edmundsbury Borough Council (“the Council”) for the year ended 31 March 2017.

That you recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of St Edmundsbury Borough Council as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

You understand that the purpose of our audit of your financial statements is to express an opinion thereon and that our audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent we considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. That you acknowledge as members of management of the Council, your responsibility for the fair presentation of the council's financial statements. We believe the council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the council financial statements.
3. You confirm that the Responsible Officer has:
 - Reviewed the accounts
 - Reviewed all relevant written assurances relating to the accounts, and
 - Made other enquiries as appropriate.
4. That the significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.



Appendix D - Request for a Management representation letter

5. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, that are free from material misstatement, whether due to fraud or error.

B. Fraud

1. You acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. You have disclosed to us the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. That you have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, you have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements.

You have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. You have disclosed to us all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. You have provided us with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that we have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.
2. That all material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. That you have made available to us all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 20 September 2017.



Appendix D - Request for a Management representation letter

4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
6. That you have disclosed to us, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to us and are appropriately reflected in the financial statements.
2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that you have given to third parties.

F. Subsequent Events

1. That other than described in the relevant note to the Council's financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
 - That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.



Appendix D - Request for a Management representation letter

- That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Expenditure Funding Analysis

1. That you have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. You confirm that the financial statements reflect the operating segments reported internally to the Council.

I. Going Concern

1. That you have made us aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Ownership of Assets

1. That except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet(s).

K. Reserves

1. You have properly recorded or disclosed in the council financial statements the useable and unusable reserves.

L. Valuation of Property, Plant and Equipment Assets

1. That you agree with the findings of the experts engaged to evaluate the values of the Council's land and buildings and have adequately considered the qualifications of the experts in determining the amounts and disclosures included within the Council's financial statements and the underlying accounting records. That you did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and that you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.
2. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
3. You confirm that the significant assumptions used in making the valuation of assets appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.
4. You confirm that the disclosures made in the council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



Appendix D - Request for a Management representation letter

5. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the council financial statements due to subsequent events.
6. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.
7. You confirm that for assets carried at historic cost, that no impairment is required.

M. Retirement benefits

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

N. Other information

1. You acknowledge your responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Statement of Accounts 2016-2017.
2. You confirm that the content contained within the other information is consistent with the financial statements.

O. Specific Representations

We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the s151 officer and Chair of Performance and Audit Scrutiny Committee) on the proposed audit opinion date (currently 22 September 2017) on formal headed paper.

Yours sincerely

Mark Hodgson
Executive Director
Ernst & Young LLP
United Kingdom

EY | Assurance | Tax | Transactions | Advisory

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